

FRANKLIN TOWNSHIP, MICHIGAN

FINANCIAL REPORT

Year ended March 31, 2005

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Franklin Township	County Houghton
Audit Date 3/31/05	Opinion Date 8/17/05	Date Accountant Report Submitted to State: 8/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

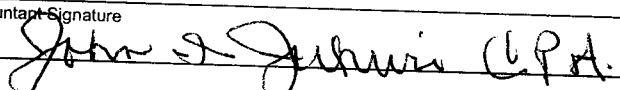
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) John I. Jukuri, CPA			
Street Address 56730 Calumet Ave., Suite J			
City Calumet		State MI	ZIP 49913
Accountant Signature 		Date 8/29/05	

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
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Calumet, Michigan 49913
Tel. (906) 337-0662 Fax (906) 337-2587

INDEPENDENT AUDITOR'S REPORT

Board Members
Franklin Township, Michigan

I have audited the accompanying general purpose financial statements of Franklin Township, Michigan, as of and for the year ended March 31, 2005. These general purpose financial statements are the responsibility of the Township's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

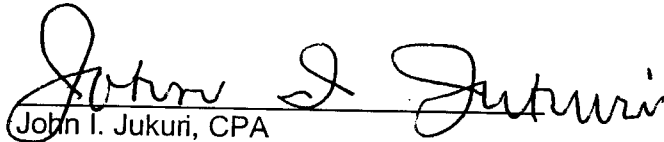
The financial statements referred to above do not include the Volunteer Fireman's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. The amounts that should be recorded are not known.

As discussed in Note (1) C to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Township's governmental activities and business-type activities are not reasonably determinable.

In my opinion, because of the effects of the matters discussed in the preceding paragraphs, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Franklin Township, Michigan, as of March 31, 2005, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 17, 2005 on my consideration of Franklin Township, Michigan's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


John I. Jukuri, CPA

Calumet, Michigan
August 17, 2005

FINANCIAL STATEMENTS

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit A

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

Year ended March 31, 2005

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Enterprise	Agency	
ASSETS					
Cash	\$ 199,716	\$195,164	\$ 46,188	\$ 14,625	\$ 455,693
Investments	40,654				40,654
Receivables, net:					
Interest	85		185		270
Taxes	4,186	8,880	1,787		14,853
Accounts		6,795	24,521		31,316
Due from state	14,766				14,766
Due from other funds	900		8,643		9,543
Advances to other funds			49,837		49,837
Restricted asset-investment			28,895		28,895
Fixed assets, net			1,017,202		1,017,202
Construction-in-process			158,020		158,020
TOTAL ASSETS	<u>260,307</u>	<u>210,839</u>	<u>1,335,278</u>	<u>14,625</u>	<u>1,821,049</u>
LIABILITIES & FUND EQUITY					
LIABILITIES					
Accounts payable	6,617	3,452	434		10,503
Accrued liabilities	2,069		4,251		6,320
Due to other funds	8,643			900	9,543
Due to other governmental units				13,725	13,725
Construction payable			124,651		124,651
Payables from restricted assets:					
Accrued interest			5,435		5,435
Current maturities of revenue bonds			5,000		5,000
Deferred revenues	4,186	15,675	64,837		84,698
Advances from other funds	49,837				49,837
Note payable			11,437		11,437
Revenue bonds payable			302,900		302,900
TOTAL LIABILITIES	<u>71,352</u>	<u>19,127</u>	<u>518,945</u>	<u>14,625</u>	<u>624,049</u>
FUND EQUITY					
Contributing capital			758,458		758,458
Retained earnings:					
Reserved - revenue bond retirement			28,895		28,895
Unreserved			28,980		28,980
Fund balance - unreserved	188,955	191,712			380,667
TOTAL FUND EQUITY	<u>188,955</u>	<u>191,712</u>	<u>816,333</u>		<u>1,197,000</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 260,307</u>	<u>\$210,839</u>	<u>\$1,335,278</u>	<u>\$ 14,625</u>	<u>\$ 1,821,049</u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit B

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GENERAL AND SPECIAL REVENUE FUND

Year ended March 31, 2005

	GENERAL	SPECIAL REVENUE	TOTALS (MEMORANDUM ONLY)
<u>REVENUES</u>			
TAXES			
Current & delinquent	\$ 20,788	\$ 82,388	\$ 103,176
Administration fees & other	10,209		10,209
TOTAL TAXES	30,997	82,388	113,385
LICENSES AND PERMITS	2,970		2,970
STATE AID			
State shared revenues	100,778		100,778
Environmental quality	12,188		12,188
TOTAL STATE AID	112,966		112,966
CHARGES FOR SERVICES			
Sanitation		24,900	24,900
INTEREST	660		660
OTHER:			
Miscellaneous	2,557		2,557
TOTAL REVENUES	150,150	107,288	257,438
<u>EXPENDITURES</u>			
LEGISLATIVE			
Township board	7,013		7,013
GENERAL GOVERNMENT			
Supervisor	7,796		7,796
Election	6,362		6,362
Assessor	7,736		7,736
Clerk	6,075		6,075
Board of review	1,360		1,360
Treasurer	8,346		8,346
Town hall	4,576		4,576
TOTAL GENERAL GOVERNMENT	42,251		42,251
PUBLIC SAFETY			
Fire protection	8,750	19,249	27,999

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit B

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GENERAL AND SPECIAL REVENUE FUND

Year ended March 31, 2005

	GENERAL	SPECIAL REVENUE	TOTALS (MEMORANDUM ONLY)
PUBLIC WORKS			
Street lighting	15,403		15,403
Roads & ditching	167		167
Sanitation	7,099	25,551	32,650
TOTAL PUBLIC WORKS	22,669	25,551	48,220
PARKS & RECREATION	381		381
OTHER			
Insurance	9,465		9,465
Employee benefits	4,113		4,113
Miscellaneous	5,672		5,672
TOTAL OTHER	19,250		19,250
CAPITAL OUTLAY	27,800	3,021	30,821
DEBT SERVICE			
Interest	3,336		3,336
TOTAL EXPENDITURES	131,450	47,821	179,271
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	18,700	59,467	78,167
OTHER FINANCING SOURCES (USES)			
Operating transfers in		9,000	9,000
Operating transfers out	(9,000)		(9,000)
TOTAL OTHER FINANCING SOURCES (USES)	(9,000)	9,000	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	9,700	68,467	78,167
Fund Balance - 3/31/04	179,255	123,245	302,500
FUND BALANCE - 3/31/05	\$ 188,955	\$ 191,712	\$ 380,667

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year ended March 31, 2005

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
TAXES			
Current & delinquent	\$ 13,179	\$ 20,788	\$ 7,609
Administration fees & other		10,209	10,209
TOTAL TAXES:	13,179	30,997	17,818
LICENSES AND PERMITS		2,970	2,970
STATE AID			
State shared revenues	101,982	100,778	(1,204)
Environmental quality		12,188	12,188
TOTAL STATE AID	101,982	112,966	10,984
INTEREST		660	660
OTHER			
Miscellaneous		2,557	2,557
TOTAL REVENUES	115,161	150,150	34,989
<u>EXPENDITURES</u>			
LEGISLATIVE			
Township board	12,026	7,013	5,013
GENERAL GOVERNMENT			
Supervisor	6,300	7,796	(1,496)
Election		6,362	(6,362)
Assessor	4,092	7,736	(3,644)
Clerk	5,400	6,075	(675)
Board of review	1,222	1,360	(138)
Treasurer	5,700	8,346	(2,646)
Town hall	2,750	4,576	(1,826)
TOTAL GENERAL GOVERNMENT	25,464	42,251	(16,787)
PUBLIC SAFETY			
Fire protection	7,500	8,750	(1,250)
PUBLIC WORKS			
Street lighting	14,500	15,403	(903)
Roads & ditching	400	167	233
Sanitation	8,000	7,099	901

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit C

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

Year ended March 31, 2005

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
TOTAL PUBLIC WORKS	22,900	22,669	231
PARKS & RECREATION	800	381	419
OTHER			
Insurance	6,323	9,465	(3,142)
Employee benefits	3,404	4,113	(709)
Miscellaneous	18,800	5,672	13,128
TOTAL OTHER	28,527	19,250	9,277
CAPITAL OUTLAY			
Parks & recreation		27,800	(27,800)
DEBT SERVICE			
Interest		3,336	(3,336)
TOTAL EXPENDITURES	97,217	131,450	34,233
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	17,944	18,700	(756)
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(9,000)	(9,000)	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	8,944	9,700	(756)
Fund Balance - 3/31/04	179,255	179,255	
FUND BALANCE - 3/31/05	\$ 188,199	\$ 188,955	\$ (756)

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit D

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - SPECIAL REVENUE FUND

Year ended March 31, 2003

SPECIAL REVENUE FUND			
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
TAXES			
Current & delinquent	\$84,824	\$82,388	(\$2,436)
CHARGES FOR SERVICES			
Sanitation	25,785	24,900	(885)
TOTAL REVENUES	110,609	107,288	(3,321)
<u>EXPENDITURES</u>			
PUBLIC SAFETY			
Fire protection	20,017	19,249	768
PUBLIC WORKS			
Sanitation	25,500	25,551	(51)
CAPITAL OUTLAY			
Fire equipment	5,598	3,021	2,577
TOTAL EXPENDITURES	51,115	47,821	3,294
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	59,494	59,467	(27)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	9,000	9,000	
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	68,494	68,467	(27)
Fund Balance - 3/31/04	123,245	123,245	
FUND BALANCE - 3/31/05	\$ 191,739	\$ 191,712	\$ (27)

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit E

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES

Year ended March 31, 2005

OPERATING REVENUES	
Water fees	\$ 33,481
Property taxes	10,258
Other operating revenue	<u>1,064</u>
Total Operating Revenue	44,803
OPERATING EXPENSES	
Administration	2,554
Wages	8,362
Supplies & maintenance	3,368
Utilities	4,534
Insurance	2,341
Depreciation	<u>36,327</u>
Total Operating Expenses	<u>57,486</u>
Operating Income (Loss)	<u>(12,683)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	4,035
Interest expense	<u>(17,366)</u>
Total Nonoperating Revenues (Expenses)	<u>(13,331)</u>
Net Income (Loss)	(26,014)
Add back depreciation on assets acquired with contributed capital	24,537
(Increase) Decrease in:	
Revenue bond retirement reserve	<u>(439)</u>
INCREASE (DECREASE) IN RETAINED EARNINGS - UNRESERVED	(1,916)
Retained earnings - unreserved - beginning	<u>30,896</u>
RETAINED EARNINGS - UNRESERVED - ENDING	<u>\$ 28,980</u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

Exhibit F

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES

Year ended March 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (12,683)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation & amortization	36,327
Changes in operating assets & liabilities:	
(Increase) decrease in:	
Taxes receivable	(435)
Accounts receivable	(300)
Increase (decrease) in:	
Accounts payable	(127)
Accrued expenses	176
Deferred revenues	(1,178)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>21,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal received on advances to other funds	578
Purchase of fixed assets	(329)
Principal paid on revenue bonds	(4,900)
Interest paid on revenue bonds	(17,489)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(22,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	4,032
Proceeds from investments	28,456
Purchase of investments	(28,895)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,593</u>
Increase (decrease) in cash and restricted cash	3,233
Cash & restricted cash - March 31, 2004	<u>42,955</u>
CASH & RESTRICTED CASH - March 31, 2005	<u><u>\$ 46,188</u></u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2005

(1) Summary of Significant Accounting Policies

A. Description of Township Operations

The Township operates under an elected board of trustees consisting of five members including a supervisor, clerk, treasurer, and two trustees. Services provided to the residents of Franklin Township include fire protection, water supply, waste disposal and community enrichment.

B. Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government). The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Franklin Township has no component units which need to be presented.

An association which meets certain criterion for including its financial activity in the Township's general purpose financial statements is the Volunteer Firemen's Fund. Since the Volunteer Firemen's Fund is not a separate legal entity and money raised thereof is done in the name of the Township, the financial activity of the fund should be a part of the Township reporting entity.

JOINTLY GOVERNED ORGANIZATION

The Township, in conjunction with one other governmental entity, created the Franklin-Quincy Township Water Authority (FQTWA) to provide a water supply system to Township residents. The FQTWA's board is comprised of five members, two of which are from the Township. The Authority's board has control over its own budgeting and financing obligations. All of the financial operations of the Authority are recorded in the records of the Authority.

It is expected that the revenues generated from FQTWA system users will be adequate to operate the water system and pay back the related construction debt and interest of FQTWA. Separately issued financial statements are available from the Authority.

C. Basis of Presentation

The accounts of the Township are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Township are recorded in separate funds and account groups, categorized as follows:

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from State aid and property taxes. This fund includes the general operating expenditures of the Township.

Special Revenue Funds - These funds are used to account for specific revenue (other than special assessments or major capital projects) that is legally restricted to expenditures for specified purposes. This fund type includes the Fire Precinct #1, Fire Precinct #2, Fire Precinct #4, Fire Equipment, Waste Disposal and Road Improvement Funds.

PROPRIETARY FUND

Enterprise Fund - These funds account for operations: (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This fund type includes the Water and Sewer Funds.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund type includes the Current Tax and Delinquent Tax Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - The Township has not presented this account. This account group should present the fixed assets of the local unit which are utilized in its general operations (nonproprietary fixed assets) and are not accounted for in the respective governmental funds. It does not include, assets known collectively as infrastructure assets - roads, drainage systems, and similar assets. Acquisition costs of these assets are included in expenditures in the year of purchase.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The governmental fund types (General and Special Revenue Funds) use a financial resources management focus and are accounted for using the modified accrual basis of accounting. The agency funds also use the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

The proprietary fund type (Enterprise Funds) are accounted for on a cost-of service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

E. Cash, Cash Equivalents and Investments

For purposes of the statement of cash flows, demand deposits and short-term investments with maturities of three months or less when acquired are considered to be cash equivalents. When applicable, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents. The Township had no cash equivalents at March 31, 2005. The Township's investments include only certificates of deposits and are stated at cost which approximates market value.

F. Receivables and Payables

During the course of operations, transactions occur between individual funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Noncurrent interfund loans are classified as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectibles, where applicable.

G. Note Receivable/Deferred Revenue - Enterprise Fund

In connection with the improvements made to the District No. 2 Water System, the Township entered into an agreement with the Quincy Development Corporation, a Michigan corporation, in January 1989 to install a larger water tank than required in order to provide sufficient capacity to meet anticipated future development by that corporation. Quincy Development agreed to reimburse the Township for the added cost and had issued promissory notes totaling \$60,160 to the Township. During the 2000 fiscal year Quincy Development defaulted on the notes. The Township's General Fund assumed responsibility of the notes in exchange for land from Quincy Development. These notes are payable in annual installments of \$4,515, including interest, for a period of 40 years. The notes bear interest at rates identical to the bonds outstanding on the project. An additional annual charge of \$600 is provided for debt service and depreciation.

Payments on this obligation are recognized as revenues as they are received.

H. Restricted Assets

Certain resources set aside for enterprise fund revenue bonds repayment are classified as restricted assets on the balance sheet because their use is limited. The "revenue bond retirement account" is used to segregate resources to meet current debt service payments and to make up potential future deficiencies in the current debt service account.

I. Fixed Assets

Fixed assets of all funds are stated at historical cost or estimated historical cost if historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Public domain "infrastructure" general fixed assets consisting of certain improvements other than buildings, including roads, curbs, and gutters, streets and sidewalks, drainage systems, and lighting systems, are not recorded.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not included in the general fixed assets account or capitalized in the proprietary funds.

Depreciation of proprietary fund assets are provided over their estimated useful lives using the straight-line method. Estimated useful lives vary from 5-40 years.

Material net interest expense incurred during the construction of proprietary fund assets is capitalized.

J. Long-Term Debt

Governmental fund type long-term debt obligations expected to be financed from expendable available financial resources are reported as a liability of a governmental fund. The remaining portion of such obligations are reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For governmental fund types, long-term debt proceeds are reported as other financing sources in the statement of revenues, expenditures and changes in fund balances.

K. Fund Equity

Contributed capital is recorded in a proprietary fund when it receives capital grants and/or contributions from developers, customers or other funds.

Retained earnings and fund balance reserves are established to identify third-party claims against resources of the Township that have not materialized as liabilities at the balance sheet date and the existence of assets that, because of their nature or lack of liquidity represent financial resources not available for current appropriation or expenditure.

L. Property Taxes

In accordance with State statutes, property taxes are levied on December 1 and are due and payable on or before February 14 of the following calendar year at which time all unpaid taxes become delinquent. The Township bills and collects its own property taxes. Delinquent real property taxes are turned over to the County and collected by them. The County subsequently issues a check for the total delinquent real property taxes due to the Township from their revolving tax funds. Unpaid personal property taxes are collected by the Township.

The 2004 ad valorem taxes levied consists of 1.2662 mills or \$21,014, for Township operating purposes. The Township also levied fire millage of 1.1278, 1.1781, and 0.8379 or \$7,006, \$6,492 and \$5,627 for Fire Precincts #1, #2 and #4, respectively, and 1.8572, 1.9794 and 1.9794 mills or \$10,102, \$32,850 and \$32,850 for Ripley Water Precinct #2, Roads and Fire Equipment, respectively

M. The Township is required to follow the budget system provided by Michigan Public Act 621 - Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures. Budgeted revenues and expenditures, as presented in Exhibit C, include authorized amendments to the original budgets as adopted. Budgets are adopted at the activity level. Appropriations lapse at year end.

N. Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. All risk of loss is covered by commercial insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Total Columns on Combined Statements

The total column on the combined statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operation or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation because interfund eliminations have not been made in the aggregation of this data.

Q. Comparative Data/Reclassifications

Comparative data for the prior year has been presented in selected sections of the accompanying financial statements. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

(2) Stewardship, Compliance and Accountability

A. Budget Violations

Noncompliance with MI PA 621 of 1978, as amended

MI Public Act 621 of 1978 Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2005 expenditures were incurred in excess of amounts appropriated in the General Fund by \$34,233.

(3) Cash Deposits

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated one bank for the deposit of Township funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	<u>Bank Balances</u>
Deposits	<u>Primary Government</u>
Insured (FDIC)	\$199,155
Uninsured	<u>\$328,596</u>
Total Deposits	\$527,751 =====

At year end, the balance sheet carrying amounts of cash and investments (which consisted of certificates of deposit only) was \$484,588.

(4) Fixed Assets

A summary of proprietary fund type fixed assets at March 31, 2005 follows:

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Construction in Process		\$ 158,020	\$ 158,020
Water System	\$ 1,445,911		1,445,911
Equipment	1,234		1,234
Accumulated Depreciation	1,447,145 (429,943)	158,020	1,605,165 (429,943)
Net Carrying Amount	\$ 1,017,202 =====	\$ 158,020 =====	\$ 1,175,222 =====

(5) Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
Primary Government:		Primary Government:	
General	\$ 900	General	\$ 8,643
Sewer Fund	8,643	Current Tax Account	55
		Delinquent Tax Account	<u>845</u>
Total	\$ 9,543 =====		\$ 9,543 =====

(6) Long-Term Debt

The following is a summary of the Township's long-term debt outstanding as of March 31, 2005:

	<u>Balance</u> <u>3/31/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>3/31/05</u>
Enterprise Fund Revenue Bonds:			
\$265,000 Water Supply Revenue Bonds acquired by U.S. Dept. of Agriculture-Rural Development, due in annual principal installments ranging from \$1,000 to \$17,000 through June 1, 2029; interest rate 5.75%	\$ 238,000	\$ (4,000)	\$ 234,000
\$40,000 Water Supply Revenue Bonds acquired by U.S. Dept. of Agriculture-Rural Development due in annual principal installments ranging from \$500 to \$2,000 through June 1, 2029; interest rate 6.25%	33,000	(500)	32,500
\$43,000 Water Supply Revenue Bonds acquired by U.S. Dept. of Agriculture-Rural Development due in annual principal installments ranging from \$400 to \$2,200 through February 1, 2040; interest rate 4.5%	<u>41,800</u>	<u>(400)</u>	<u>41,400</u>
Total Enterprise Fund Debt	\$ 312,800 =====	\$ (4,900) =====	\$ 307,900 =====

The annual principal and interest requirements through maturity for all debts outstanding as of March 31, 2005 are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Water Supply Revenue Bonds			
2006	\$ 22,219	\$ 5,000	\$ 17,219
2007	22,906	6,000	16,906
2008	22,565	6,000	16,565
2009	22,324	6,100	16,224
2010	22,949	7,100	15,849
2011-2015	113,834	41,300	72,534
2016-2020	112,312	53,100	59,212
2021-2025	113,457	72,000	41,457
2026-2030	109,601	91,300	18,301
2031-2035	11,629	7,800	3,829
2036-2040	11,890	10,000	1,890
2041	<u>2,299</u>	<u>2,200</u>	<u>99</u>
	\$ 587,985 =====	\$ 307,900 =====	\$ 280,085 =====

(7) Contributed Capital

During the year contributed capital changed by the following amounts:

	<u>Enterprise Funds</u>	
	<u>Water</u>	<u>Sewer</u>
Contributed capital 3/31/04	\$ 756,495	\$ 26,500
Depreciation on contributed capital assets	(24,537)	
CONTRIBUTED CAPITAL 3/31/05	<u>\$ 731,958</u>	<u>\$ 26,500</u>

(8) Reserved Fund Equity and Restricted Assets

The Township's bond ordinances for the Water Supply Revenue Bonds require that the Township establish sinking funds (Revenue Bond Retirement Funds) in amounts not less than the maximum annual requirements. At March 31, 2005 the sinking fund balances are sufficient for the payment of principal and interest on all the revenue bonds.

The amount of fund balance and retained earnings reserved for water supply revenue bond debt service is detailed as follows:

<u>Water Fund</u>	<u>Revenue Bond Retirement Account</u>
Restricted Asset – Investment	\$ 28,895
Less Payables from Restricted Assets:	
Accrued Interest	(5,435)
Current Maturities Revenue Bonds	<u>(5,000)</u>
Reserved Retained Earnings	<u>\$ 18,460</u>

(9) Employee Retirement Plan

Plan Description

The Township participates in the Municipal Retirement Systems, Inc. Non-Standardized Money Purchase Pension Plan that is administered by the Municipal Retirement Systems, Inc. The Township has no fiduciary responsibility for the plan.

All full-time nonseasonal employees of the Township are eligible to participate in the plan except for employees covered by a collective bargaining agreement and the board of review. As of December 31, 2004 the Township had ten active covered employees. The annual covered payroll and total payroll at that date totaled \$28,369 and \$29,938, respectively.

Under the provisions of the plan, pension benefits vest 100% upon entering the plan. Distributions may be made at the participants' election on or after the anniversary date following termination of employment.

Contributions Required and Contributions Made

The Township is required to contribute 12% of the employee's annual wages. The employee is not required to contribute. During the fiscal year ended March 31, 2005 employer contributions totaled \$3,404.

(10) Contingent Liabilities

Grants

The Township receives Federal and State Grants for specific purposes that are subject to review and audit by Federal and State agencies. Such audits could result in a request for reimbursement by the Federal and State agencies for expenditures disallowed under the terms and conditions of the appropriate agency.

The Township has been directed by the Michigan Department of Environmental Quality to eliminate the raw sewage discharge occurring in communities within the Township. The Township has applied for a grant and loan funding through Rural Development. It is anticipated that the project will begin sometime in the next fiscal year.

(11) Segment Information - Proprietary Funds

The Township maintains two separate enterprise funds which provide water and sewer services respectively. Selected segment information for the year ended March 31, 2005, is as follows:

	Water Fund	Sewer Fund	Total
Operating Revenues	\$ 44,803	\$	\$ 44,803
Depreciation	36,327		36,327
Operating Loss	(12,683)		(12,683)
Non-operating Revenues (Expenses)	(13,331)		(13,331)
Net Loss	(26,014)		(26,014)
Contributed Capital Reductions	24,537		24,537
Net Working Capital	72,071	(120,083)	(48,012)
Total Assets	1,168,615	166,663	1,335,278
Bonds Payable	307,900		307,900
Note Payable		11,437	11,437
Total Equity	789,833	26,500	816,333
Contributed Capital	731,958	26,500	758,458
Retained Earnings	57,875		57,875

SUPPLEMENTARY FINANCIAL INFORMATION

COMBINING STATEMENTS

FRANKLIN TOWNSHIP, MICHIGAN

COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS

Year ended March 31, 2005

	<u>FIRE PRECINCT #1</u>	<u>FIRE PRECINCT #2</u>	<u>FIRE PRECINCT #4</u>	<u>FIRE EQUIPMENT</u>	<u>WASTE DISPOSAL</u>	<u>ROAD IMPROVE</u>	<u>TOTAL</u>
ASSETS							
Cash	\$ 8,619	\$ 9,101	\$ 6,983	\$ 59,135	\$ 21,702	\$ 89,624	\$ 195,164
Receivables (net):							
Taxes	818	737	527	3,399		3,399	8,880
Accounts					6,795		6,795
TOTAL ASSETS	<u>9,437</u>	<u>9,838</u>	<u>7,510</u>	<u>62,534</u>	<u>28,497</u>	<u>93,023</u>	<u>210,839</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	71	163	1,093		2,125		3,452
Deferred revenues	818	737	527	3,399	6,795	3,399	15,675
TOTAL LIABILITIES	889	900	1,620	3,399	8,920	3,399	19,127
FUND BALANCE							
Unreserved	8,548	8,938	5,890	59,135	19,577	89,624	191,712
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 9,437</u>	<u>\$ 9,838</u>	<u>\$ 7,510</u>	<u>\$ 62,534</u>	<u>\$ 28,497</u>	<u>\$ 93,023</u>	<u>\$ 210,839</u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS**

Year ended March 31, 2005

	FIRE PRECINCT #1	FIRE PRECINCT #2	FIRE PRECINCT #4	FIRE EQUIPMENT	WASTE DISPOSAL	ROAD IMPROVE	TOTAL
REVENUES							
Taxes	\$ 6,734	\$ 6,195	\$ 5,560	\$ 31,949		\$ 31,950	\$ 82,388
Charges for services					24,900		24,900
TOTAL REVENUES	<u>6,734</u>	<u>6,195</u>	<u>5,560</u>	<u>31,949</u>	<u>24,900</u>	<u>31,950</u>	<u>107,288</u>
EXPENDITURES							
Public safety	6,965	5,649	6,635				19,249
Public works					25,551		25,551
Capital outlay				3,021			3,021
TOTAL EXPENDITURES	<u>6,965</u>	<u>5,649</u>	<u>6,635</u>	<u>3,021</u>	<u>25,551</u>		<u>47,821</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(231)	546	(1,075)	28,928	(651)	31,950	59,467
OTHER FINANCING SOURCES (USES)							
Operation transfers in				9,000			9,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(231)	546	(1,075)	37,928	(651)	31,950	68,467
Fund Balance - 3/31/04	8,779	8,392	6,965	21,207	20,228	57,674	123,245
TOTAL	<u>\$ 8,548</u>	<u>\$ 8,938</u>	<u>\$ 5,890</u>	<u>\$ 59,135</u>	<u>\$ 19,577</u>	<u>\$ 89,624</u>	<u>\$ 191,712</u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

COMBINING BALANCE SHEET - ALL PROPRIETARY FUND TYPES

Year ended March 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current assets			
Cash	\$ 46,188		46,188
Receivables (net):			
Interest	185		185
Taxes	1,787		1,787
Accounts	24,521		24,521
Due from other funds		8,643	8,643
Total current assets	72,681	8,643	81,324
Advances to other funds	49,837		49,837
Restricted asset - investment	28,895		28,895
Fixed assets, net	1,017,202		1,017,202
Construction-in-process		158,020	158,020
TOTAL ASSETS	<u>\$ 1,168,615</u>	<u>\$ 166,663</u>	<u>\$ 1,335,278</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Current liabilities:			
Accounts payable	434		434
Accrued expenses	176	4,075	4,251
Construction payable		124,651	124,651
Total current liabilities	610	128,726	129,336
Payables from restricted assets:			
Accrued interest	5,435		5,435
Current maturities of revenue bonds	5,000		5,000
Deferred revenues	64,837		64,837
Note payable		11,437	11,437
Revenue bonds payable	302,900		302,900
TOTAL LIABILITIES	<u>378,782</u>	<u>140,163</u>	<u>518,945</u>
FUND EQUITY			
Contributed capital	731,958	26,500	758,458
Retained earnings:			
Reserved:			
Revenue bond retirement	28,895		28,895
Unreserved	28,980		28,980
TOTAL FUND EQUITY	<u>789,833</u>	<u>26,500</u>	<u>816,333</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,168,615</u>	<u>\$ 166,663</u>	<u>\$ 1,335,278</u>

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES**

Year ended March 31, 2005

	Enterprise Funds		
	Water	Sewer	Totals
OPERATING REVENUES			
Water fees	\$ 33,481	\$ -	\$ 33,481
Property taxes	10,258		10,258
Other operating revenue	1,064		1,064
Total operating revenue	44,803		44,803
OPERATING EXPENSES			
Administration	2,554		2,554
Wages	8,362		8,362
Supplies & maintenance	3,368		3,368
Utilities	4,534		4,534
Insurance	2,341		2,341
Depreciation	36,327		36,327
Total Operating Expenses	57,486		57,486
Operating Income (Loss)	(12,683)		(12,683)
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,035		4,035
Interest expense	(17,366)		(17,366)
Total Nonoperating Revenues (Expenses)	(13,331)		(13,331)
Net Income (Loss)	(26,014)		(26,014)
Add back depreciation on assets acquired with contributed capital	24,537		24,537
(Increase) Decrease in:			
Revenue bond retirement reserve	(439)		(439)
INCREASE (DECREASE) IN RETAINED EARNINGS - UNRESERVED	(1,916)		(1,916)
Retained earnings - unreserved - beginning	30,896		30,896
RETAINED EARNINGS - UNRESERVED - ENDING	\$ 28,980	\$ -	\$ 28,980

The accompanying notes are an integral part of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

COMBINING STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES

Year ended March 31, 2005

	Enterprise Funds		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ (12,683)	\$ -	\$ (12,683)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	36,327		36,327
Changes in operating assets & liabilities:			
(Increase) decrease in:			
Taxes receivable	(435)		(435)
Accounts receivable	(300)		(300)
Increase (decrease) in:			
Accounts payable	(127)		(127)
Accrued expenses	176		176
Deferred revenues	(1,178)		(1,178)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>21,780</u>		<u>21,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal received on advances to other funds	578		578
Purchase of fixed assets	(329)		(329)
Principal paid on revenue bonds	(4,900)		(4,900)
Interest paid on revenue bonds	(17,489)		(17,489)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(22,140)</u>		<u>(22,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	4,032		4,032
Proceeds from investments	28,456		28,456
Purchase of investments	(28,895)		(28,895)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>3,593</u>		<u>3,593</u>
Increase (decrease) in cash and restricted cash	<u>3,233</u>		<u>3,233</u>
Cash & restricted cash - March 31, 2004	<u>42,955</u>		<u>42,955</u>
CASH & RESTRICTED CASH - March 31, 2005	<u>\$ 46,188</u>	<u>\$ -</u>	<u>\$ 46,188</u>

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

COMBINING BALANCE SHEET
AGENCY FUNDS

Year ended March 31, 2005

	CURRENT TAX ACCOUNT	DELINQUENT TAX ACCOUNT	TOTAL
ASSETS			
Cash in bank	\$ 11,514	\$ 3,111	\$ 14,625
LIABILITIES			
Due to other funds	\$ 55	\$ 845	\$ 900
Due to other governmental units	11,459	2,266	13,725
TOTAL LIABILITES	\$ 11,514	\$ 3,111	\$ 14,625

The accompanying notes are an integral part
of the financial statements.

FRANKLIN TOWNSHIP, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS**

Year ended March 31, 2005

	<u>Balance March 31, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
CURRENT TAX ACCOUNT				
Assets:				
Cash	<u>\$ 17,988</u>	<u>\$ 689,767</u>	<u>\$ 696,241</u>	<u>\$ 11,514</u>
Liabilities:				
Due to other governmental units	\$ 16,491	\$ 555,114	\$ 560,146	\$ 11,459
Due to other funds	1,497	132,176	133,618	55
Due to taxpayers		2,477	2,477	
TOTAL LIABILITIES	<u>\$ 17,988</u>	<u>\$ 689,767</u>	<u>\$ 696,241</u>	<u>\$ 11,514</u>
DELINQUENT TAX ACCOUNT				
Assets:				
Cash	<u>\$ 100</u>	<u>\$ 22,696</u>	<u>\$ 19,685</u>	<u>\$ 3,111</u>
Liabilities:				
Due to other governmental units	\$ -	\$ 5,105	\$ 2,839	\$ 2,266
Due to other funds	100	17,591	16,846	845
TOTAL LIABILITIES	<u>\$ 100</u>	<u>\$ 22,696</u>	<u>\$ 19,685</u>	<u>\$ 3,111</u>
TOTAL AGENCY FUNDS				
Assets:				
Cash	<u>\$ 18,088</u>	<u>\$ 712,463</u>	<u>\$ 715,926</u>	<u>\$ 14,625</u>
Liabilities:				
Due to other governmental units	\$ 16,491	\$ 560,219	\$ 562,985	\$ 13,725
Due to other funds	1,597	149,767	150,464	900
Due to taxpayers		2,477	2,477	
TOTAL LIABILITIES	<u>\$ 18,088</u>	<u>\$ 712,463</u>	<u>\$ 715,926</u>	<u>\$ 14,625</u>

The accompanying notes are an integral part of the financial statements.

FEDERAL PROGRAMS

FRANKLIN TOWNSHIP, MICHIGAN

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Township Board
Franklin Township, Michigan

I have audited the general purpose financial statements of Franklin Township, Michigan as of and for the year ended March 31, 2005, and have issued my report thereon dated August 17, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Franklin Township, Michigan's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to the management of Franklin Township, Michigan in a separate letter dated August 17, 2005.

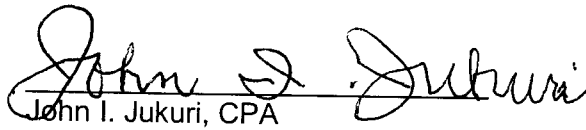
Internal Control over Financial Reporting

In planning and performing my audit, I considered Franklin Township, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition, which is described below. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Franklin Township, Michigan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily

disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is not a material weakness. I also noted other matters involving the internal control over financial reporting, which I have reported to the management of Franklin Township, Michigan in a separate letter dated August 17, 2005.

This report is intended solely for the information of the board membership, management, and applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.


John I. Jukuri, CPA

Calumet, Michigan
August 17, 2005

JOHN I. JUKURI
CERTIFIED PUBLIC ACCOUNTANT
56730 Calumet Avenue, Suite J
Calumet, Michigan 49913
Tel. (906) 337-0662 Fax (906) 337-2587

August 17, 2005

Board Members
Franklin Township
Hancock, MI 49930

In planning and performing my audit of the financial statements of Franklin Township, Michigan, for the year ended March 31, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. I noted certain matters involving the internal control structure and its operation and other items that came to my attention in the normal conduct of my audit that are presented to assist in improving accounting procedures and controls.

Internal Controls

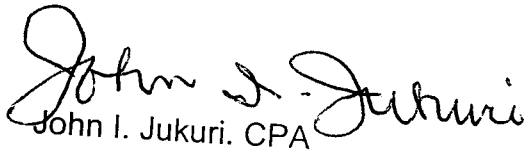
1. Due to the limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee or Township official has access to both physical assets and the related accounting records or all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. This dictates that the Township Board remain involved in the financial affairs of the Township to provide oversight and independent review functions.
2. The Township operates a volunteer fire department in which certain expenditures are not being accounted for. Because the department is not a separate legal entity and any fund raising is done in the name of the Township, I recommend that all financial activity and cash transactions of the fire department be under the control of the Township Treasurer and reported in the Township's financial statements under the Volunteer Firemen's Fund.
3. The Water Fund is required to maintain a reserve for repairs, replacement and improvements per the U.S. Rural Development Agency. The required reserve is under funded at 3/31/05. I recommend the board authorize and start a new bank account for "Repairs, Replacement and Improvements" and fund this for the required reserve.
4. The Sewer Fund does not have its own bank account. I recommend the board authorize and start an account for the Sewer Fund with the funds due from the general fund.

Other

5. The Township Board is responsible for complying with the budgeting laws of the State of Michigan. Expenditures were incurred in excess of amounts appropriated in the General Fund by \$34,233. I recommend that the Board adopt appropriate policies and procedures to insure that the budgeting laws are properly followed.
6. Currently, the Township does not record certain general infrastructure assets in governmental activities. I recommend that these assets be recorded in order to comply with generally accepted accounting principles. The Township may experience difficulty in acquiring certain cost information when establishing initial property records, however, GASB Codification Section 1400.112 permits the use of estimated costs.

This report is intended for the information and use of the Board membership and applicable Federal and State agencies. I would be pleased to discuss any of the comments with you at your convenience.

Sincerely,


John I. Jukuri, CPA